



LESSONS LEARNED RECORD OF INTERVIEW

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LL-03 – U.S. Perception and Responses to Corruption in Afghanistan				
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To learn about high-level USG discussions and policy on corruption in Afghanistan				
Interviewees: (Either list interviewees below, attach sign-in sheet to this document or hyperlink to a file)				
(b)(3), (b)(6), (b)(7)(C)				
SIGAR Attendees:				
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NSC, Kabul Bank, and the importance of economic issues

(b)(3), (b)(6), (b)(7)(C) [redacted] Kabul Bank was then one of many issues (b)(3), (b)(6), (b)(7)(C) – there had been some reports but I wasn't focusing on it. It was an issue, but not a major one. In the fall of 2010 we were focused on the one-year review [KB note: of Obama's Afghanistan-Pakistan policy]. There were three of us on the one-year review, and most of our time was on that. It was obscene hours to do that.

Then the Filkins article, *Afghan Bank Heist*, came out in February 2011. The story that was told to me – by people who would know – is that the article came out, (b)(5) [redacted]

(b)(5) [redacted]

At the same time, there was a number of us trying to make the economic side a bigger issue. This came out of the strategy review. The times I was asked, what do I think?, I always said, we need more econ in here. They would say, why do we need that? And I had to explain, well it supports the government and our security assistance – we're helping the Afghans build a security force, and the only way that they will be able to sustain that over time is if the Afghans have a tax base. I had to lay it out; it's not intuitive to people. Even within USAID, most people do not have an economics background. Treasury and OMB got it. I had a really good relationship with Treasury. Tom Nides was Deputy Secretary of State – he'd come from being third in charge at Morgan Stanley, so he got it. At NSC, there was David Lipton. He left to become second in charge at IMF. He got it.

We did successfully move this forward. We were talking about stability, and all analysis by the World Bank indicates that rapid change in economic conditions is the greatest threat to political stability. So as we were drawing down, and people saw we were drawing down, there would be greatly increasing competition over resources, and that would threaten political stability.

The banking sector is so important to that – because you can't have a good economy if you don't have a financial sector. This happened in the Soviet era, a lot of people lost a lot of money that was just taken. The Afghans remember that. So we spent the better part of 10 years trying to rebuild that trust, get the sector back up and running, and then Kabul Bank was this massive body blow. It was feasible that it could take down the financial sector.

Kabul Bank was the largest bank in the country. The other one was Azimi bank, with strong ties to the New Ansari Money Exchange. We started digging into New Ansari, and there were indications that it was bad or even worse [KB note: than Kabul Bank]. So the two largest banks in the country were in critical shape – and this is something Afghans care about. That's one thing we were checking: do Afghans care? That was the biggest thing – yes, people do care. So what do we do about it?

Hard Linkage



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We said let's look at our funding: can we link continued payments of our aid assistance (not talking military assistance) to benchmarks that need to be met, which the IMF identified. The IMF went in and said the Afghans need to do a series of things – we used that as a set of standards. (b)(5)

[REDACTED]

There were a million things we were trying to do, and all of it depended on the Karzai regime as an effective partner. But if this [KB note: corruption like Kabul Bank] was allowed to continue, is the rest of this kind of moot? There was a lot of personal anger and disgust. Feeling we cannot have this. (b)(1) - 1.4(D) and that would incense people.

We pushed and pushed. I was on the side of, there needs to be some sort of accountability, there needed to be a better tool. You don't want to kill all assistance. You try to get them to understand why this matters. They want to continue in their positions of power, and you argue that they would lose significant investment coming into the country. There were Afghans in Dubai, looking to invest in Afghanistan; you're going to lose that potential investment. We tried to make those arguments on the diplomatic side, and put the pressure on.

Limited US Leverage or Credibility on 'Corruption'

(b)(1) - 1.4(D) they have a pretty strong argument in response: they say, you are the ones who've made this problem. How dare you?

They're right. We were giving contracts out to pretty nasty people, empowering people we shouldn't have empowered, in order to achieve our own goals. We were pumping a lot of money in because we use the amount we appropriate through our budgetary system as a proxy for our level political commitment. This, more than an objective and realistic assessment of how much money is needed and can be effectively absorbed within a set timeframe, is what tends to dictate our aid budgets. And even if an accurate assessment could be done, because of the length of the U.S. budget cycle and USAID's contracting process, money that is appropriated in response to a perceived need is often not implemented as a project until years later, after the needs in a highly fluid environment have changed. And because of the politics and bureaucracy in Washington, it is very difficult, if not impossible, without paying a high political cost, to go back and tell Congress that the situation has changed or the money can no longer be used well because of inherent difficulties or local corruption problems.

Furthermore, in a conflict environment oversight is difficult, but our systems of accountability are also poor. So when you push large amounts of money through and there's no way to pull it back, it creates an incentive for corruption. The environment in which you are operating shifts and corrupt actors create ways to bleed the system for all it is worth, because they know the money will keep flowing no matter what they do, and they can make more by being corrupt than non-corrupt. This was true in Afghanistan and Iraq, as well as every other high-profile U.S. effort that becomes politicized in DC. This is a dynamic we have to change if we want to use our money well and effectively achieve our goals. U.S. officials on the ground have to be appropriately authorized and encouraged to pull money back if it is not being used well, and these decisions need to be politically supported in Washington.

The people who are most ruthless and least moral, will be the people most able to take advantage of the system. You had good people who wanted to do the right thing and were trying to compete in this space, but how could they compete with the ruthless ones, without being corrupt themselves? The good ones said, even if we somehow get a contract, they'll shut us down. There are a lot of people behind them [i.e., relying on them].

So the Afghans would say, who are you to be holier than thou, up on your high horse, when we have all these foreigners here getting rich, and we don't know how long the money will be here. So now make money while we



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can. It became the only logical thing for everyone to do – because it was the right thing to do. People relying on them. And this had played out over a decade.

So to bring in an anti-corruption argument, isn't very effective. We would say, though, we cannot argue with our Congress to maintain those budgets, if your brothers are stealing money. We tried to make those arguments in a way that was politically powerful, while still trying to ensure there was a financial system in place that still functioned.

There were a lot of tough issues to balance, within a highly politicized environment. There were not a lot of people who understood, and the economics had not been a priority compared to security and political.

We got them to agree to some IMF measures – they recapitalized the bank, for instance. But it was a matter of time; can we keep it going? Kabul Bank can't remain at the top forever. (b)(5)

Then there were things to deal with along the way, like suddenly Fitrat is in Virginia, and the Afghans were asking for him to be extradited. There were lots of underlying parts that had to be managed. We emphasized to them [Afghans?] that this was important.

The typical pattern was: The Afghans know what we want to hear; they say it; they let it cool down for a while; then it's pushed under the carpet. That's kind of what happened on Kabul Bank.

The first thing Ghani did as president was to reopen the Kabul Bank case. He didn't have to do that. He knew the economy was crashing, capital was fleeing, businesses were fleeing, he's got to find a way to stabilize things, and do something to signal they were going to go after these people. They did the same thing with the Soviets – people have been playing this game for decades. They're very very good at it.

Military and corruption

(b)(5)

DOD – you hear about corruption at the strategic level, but the thing is, the most important thing about how the military affects corruption is in how it operates on the ground. And the military was one of the biggest, if not the biggest, contributors. (b)(3), (b)(6), (b)(7)(C)

Structural problems in the reconstruction effort / aid delivery

(b)(3), (b)(6), (b)(7)(C)

A lot of us were focused on, why are we doing the same things over and over? We all recognized that it wasn't working, it was messed up, and reasons why. But we kept doing it. Question is, why? I'd trace it back through 5 why's – and it came back to structural issues that always came back to Washington. These were:

- 1) The way we made decisions on budget and appropriations, the way money flowed down into Afghanistan.
- 2) The way we deployed people, basically our HR. There was no continuity and there were people who shouldn't be there in the first place. People brush it off, but these are critical details. You can have the best strategy in the world, but if you don't have the right people, it won't be implemented. You can have the worst strategy, but if you have the right people, they'll figure out the right thing to do. It is so critical to have the right people and then support them. We had the wrong people and didn't support them.

(To #1 above) Making decisions on the Hill, on how to allocate the assistance budget. Decisions are made on the subcommittee by people who do not have a good understanding of what is going on in the country. E.g. we spent millions on women's issues but these created a huge backlash.



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The money flows from appropriations to USAID to Mission Director to divisions, and now they have to spend that money. They can't do a lot of small projects because these take as much time as big projects. So then big contracts go to Chemonics, DAI, etc. They subcontract to smaller companies, who subcontract to Afghan NGOs, who subcontract to local contractors. 20% is taken out for overhead at every step. The local engineer hired to implement the project knows his incentives. Everyone is under pressure to spend money, so he can inflate his budget. He can get second-rate materials because no one will check the work (or he can likely pay off inspectors). He will hire family to do the work. He, and every other contractor, is graded not on quality but on how many schools he builds, because ultimately this is the metric demanded in Washington. Therefore, he has little incentive to coordinate with local communities, other donors, or the local government. Just get the schools built so he can get the next contract. In addition, he doesn't know how long the money will continue to flow, and he has many people in his family and community depending on him and telling him that it is his responsibility to make money now to support the rest of them when things go bad again. So, even for honest contractors, the incentives are for expensive, shoddy, uncoordinated, quickly built schools. And that is often what we got.

(b)(3), (b)(6), (b)(7)(C) USAID, who are we getting (for personnel)? They said, it's pulse-checking. Again, it is so critical for implementation. If we don't fix these things, then we're not going to do any good.

(b)(3), (b)(6), (b)(7)(C)

Our money was empowering a lot of bad people. There was massive resentment among the Afghan people. And we were the most corrupt here, so had no credibility on the corruption issue.

To change the structure – the structure is designed for no reason that has to do with the Afghans. It's based on domestic politics. And it's hard to change that.

But what would it look like to change? I had a friend who knew the Afghan business side. We worked together on how to deal with this. We mapped it out. I talked to everyone I could – military contracting, Afghan businesses, people in the field. And it [the theory of the money flow and incentive structure] stood up.

Contracting

Tiger Team focused on construction contracting, one of the worst areas. It was controlled by an oligarchy of 5-6 big Afghan companies. They had hired big Western lawyers to help them meet our compliance requirements, check all the boxes. No one else had the resources to do that. The access to military contracts was totally opaque.

We need to do two things in our contract processes:

- 1) Simplify the application process, make it more transparent, and ensure we are getting to a broader network of people/contractors.
- 2) Given that we weren't going to create capacity in those mid-level contracting companies, we need to create a new market of Afghans who understand the contracting process; create programs and target implementers.

Changing the policy and implementation

Then [MG] Flynn came in, and said we need to focus our intelligence on all of this. It was pushed up through to higher levels of DOD.



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Only way it works is if you change the incentive structures. If we could create a credible threat that you'd be kicked out of the system. Not everyone, but if we could create a system where it costs something to be corrupt, then you get some of the good guys. You have to change the system.

It doesn't matter if we come up with the right or wrong strategy. If we implement it poorly, then we get bad results. Then we say the strategy failed.

It's about the right people - the 100 small decisions you have to make every day - how to balance budget issues, etc. If you put the right person in that environment, they'll make the right decisions 70% of the time. If you put the wrong person in that environment, they'll make the right decisions maybe 20% of the time. We need to ask, what kind of individual do we need? What qualities does such an individual have, do we have them, how do we recruit and retain them? By definition such a person thinks outside the box, has good people skills, does problem-solving. Those people don't want to be locked down at a pool. But the majority of people there [in Kabul] bide their time and collect a pay check.

(b)(3), (b)(6), (b)(7)(C)

We need to better integrate what we're doing (b)(5)

